

**REPORT OF THE AUDIT OF THE
DAVIESS COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
May 16, 2008 Through May 15, 2009**



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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
DAVISS COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period
May 16, 2008 Through May 15, 2009

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for the Daviess County Sheriff for the period May 16, 2008 through May 15, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$41,030,518 for the districts for 2008 taxes, retaining commissions of \$1,148,842 to operate the Sheriff's office. The Sheriff distributed taxes of \$39,798,120 to the districts for 2008 taxes.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Reid Haire, Daviess County Judge/Executive

Honorable Keith Cain, Daviess County Sheriff

Members of the Daviess County Fiscal Court

Independent Auditor's Report

We have audited the Daviess County Sheriff's Settlement - 2008 Taxes for the period May 16, 2008 through May 15, 2009. This tax settlement is the responsibility of the Daviess County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Daviess County Sheriff's taxes charged, credited, and paid for the period May 16, 2008 through May 15, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated April 14, 2010 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Reid Haire, Daviess County Judge/Executive
Honorable Keith Cain, Daviess County Sheriff
Members of the Daviess County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

April 14, 2010

DAVIESS COUNTY
KEITH CAIN, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period May 16, 2008 Through May 15, 2009

<u>Charges</u>	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Real Estate	\$ 5,834,417	\$ 5,151,216	\$ 18,524,659	\$ 5,233,815
Tangible Personal Property	936,191	575,687	2,021,116	1,852,692
Increases Through Exonerations	5,026	3,940	22,077	6,369
Franchise Taxes	361,875	229,495	845,652	
Distilled Spirits Taxes	12,165	16,377	35,195	
Unmined Coal - 2007 Rebilled	433	343	1,842	413
Omitted Limestone, Sand and Gravel	30	23	123	27
Oil and Gas Property Taxes	10,782	8,245	44,636	9,673
Limestone, Sand and Gravel	267	204	1,105	239
Bank Franchises	391,754			
Penalties	27,643	25,149	77,844	27,391
Adjusted to Sheriff's Receipt	(906)	(397)	19	(1,014)
Gross Chargeable to Sheriff	<u>7,579,677</u>	<u>6,010,282</u>	<u>21,574,268</u>	<u>7,129,605</u>
<u>Credits</u>				
Exonerations	20,585	17,004	61,396	17,962
Discounts	123,670	98,138	355,595	120,058
Delinquents:				
Real Estate	67,870	64,648	181,923	60,884
Tangible Personal Property	12,874	7,328	28,802	22,321
Franchise Taxes	468	305	1,483	
Total Credits	<u>225,467</u>	<u>187,423</u>	<u>629,199</u>	<u>221,225</u>
Taxes Collected	\$ 7,354,210	\$ 5,822,859	\$ 20,945,069	\$ 6,908,380
Less: Commissions *	<u>312,841</u>	<u>227,931</u>	<u>314,176</u>	<u>293,894</u>
Taxes Due	7,041,369	5,594,928	20,630,893	6,614,486
Taxes Paid	7,028,096	5,585,080	20,587,995	6,596,949
Refunds (Current and Prior Year)	<u>13,273</u>	<u>9,848</u>	<u>42,898</u>	<u>17,537</u>
Due as of Completion of Audit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* See Page 4.

The accompanying notes are an integral part of this financial statement.

DAVIESS COUNTY
 KEITH CAIN, SHERIFF
 SHERIFF'S SETTLEMENT - 2008 TAXES
 For The Period May 16, 2008 Through May 15, 2009
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	19,474,195
1.5% on	\$	20,945,069
1% on	\$	601,254

The accompanying notes are an integral part of this financial statement.

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENT

May 15, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENT
May 15, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of May 15, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 4, 2008 through May 15, 2009.

B. Unmined Coal Taxes - 2007 Rebilled

The tangible property tax assessments were levied as of January 1, 2007. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 18, 2009 through May 15, 2009.

Note 4. Interest Income

The Daviess County Sheriff earned \$20,740 as interest income on 2008 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Daviess County Sheriff collected \$119,117 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Fees

The Daviess County Sheriff collected \$9,535 of advertising fees allowed by KRS 134.440(2). The advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To Honorable Reid Haire, Daviess County Judge/Executive
Honorable Keith Cain, Daviess County Sheriff
Members of the Daviess County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Daviess County Sheriff's Settlement - 2008 Taxes for the period May 16, 2008 through May 15, 2009, and have issued our report thereon dated April 14, 2010. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Daviess County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Daviess County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Daviess County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

As part of obtaining reasonable assurance about whether the Daviess County Sheriff's Settlement - 2008 Taxes for the period May 16, 2008 through May 15, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Daviess County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Daviess County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

April 14, 2010

COMMENT AND RECOMMENDATION

DAVIESS COUNTY
KEITH CAIN, SHERIFF
COMMENT AND RECOMMENDATION

For The Period May 16, 2008 Through May 15, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal controls, we noted the Sheriff's office has a lack of segregation of duties. The Sheriff's Finance Officer prepares tax reports, prepares tax payments, distributes tax payments, reconciles checking accounts, collects money, prepares deposits, and makes deposits. Documented compensating controls were not in place to offset this control deficiency. The deficiency as described above is a significant deficiency and a material weakness. We make the following recommendations to implement compensating controls:

- The Sheriff or designee should review and document approval of monthly tax reports and agrees tax payments to the monthly tax reports.
- A co-signature should be required on all checks
- Cash counts should be documented and when cash is recounted, the second count should be documented as well.
- Cash should be deposited by someone other than the Finance Officer
- Bank reconciliations should be verified by someone other than the preparer of the reconciliation. This process should be documented.

Sheriff's Response: The Sheriff's Department recognizes the difficulty segregating duties in a small department with limited resources. As a result of the 2007 tax audit, which was completed near the end of the 2008 tax year, changes were implemented to improve the segregation of duties. These changes are reflected in the 2009 tax year. Daily cash counts are initialed by the counting clerk and the second count is also initialed. The Sheriff already routinely signs the monthly tax reports and corresponding checks to the taxing districts.

